

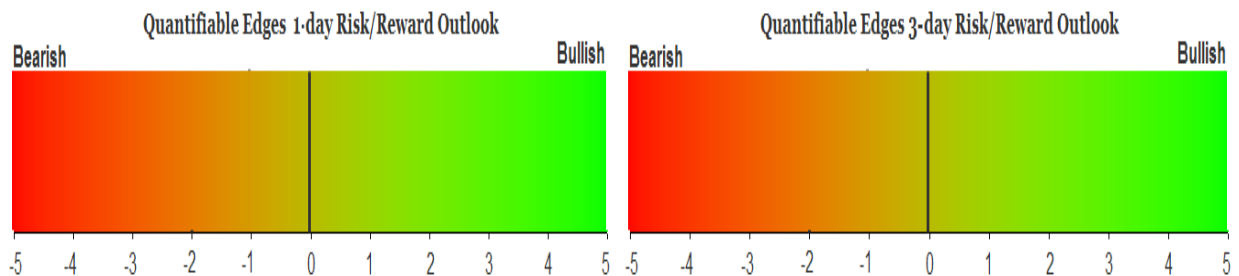
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 1, 2021

Volume 14 Issue 103

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Flat	0

## Tonight's Research Points

- The gap up and partial reversal for SPY the last 2 days triggered an old study with short-term bullish implications.
- The weak close to finish the month sets up the first day of the new month with a bullish edge.
- Memorial Day week used to be quite bullish. In recent years, only Thursday has seen the bullish tendency persist.
- The QE Seasonality Calendar for June shows this 1<sup>st</sup> week looking positive.
- The SOMA declined this past week, but that is just a calendar quirk.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is neutral. Evidence is pointing higher, but the market is overbought. It might not take much of a dip early this week to turn the Aggregator bullish.

**Summary of Recent Active Studies (see Letters from listed dates for details)**

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
<b>Active - Short Term</b>						
June 1, 2021	Poor close on last day of month	1 day	Bullish			
June 1, 2021	Gap up, higher high, cl < open. 2 times	1-5 days	Bullish	1.70%	-0.70%	-1.30%
<b>Active - Long Term</b>						
May 3, 2021	Worst 6 Months	1-6 months	Bearish			
April 22, 2021	% of SPX stocks > 100ma exceeds 94%	int term	Bullish			
July 9, 2020	Golden Cross	int term	Bullish			
March 23, 2020	QE4	int term	Bullish			

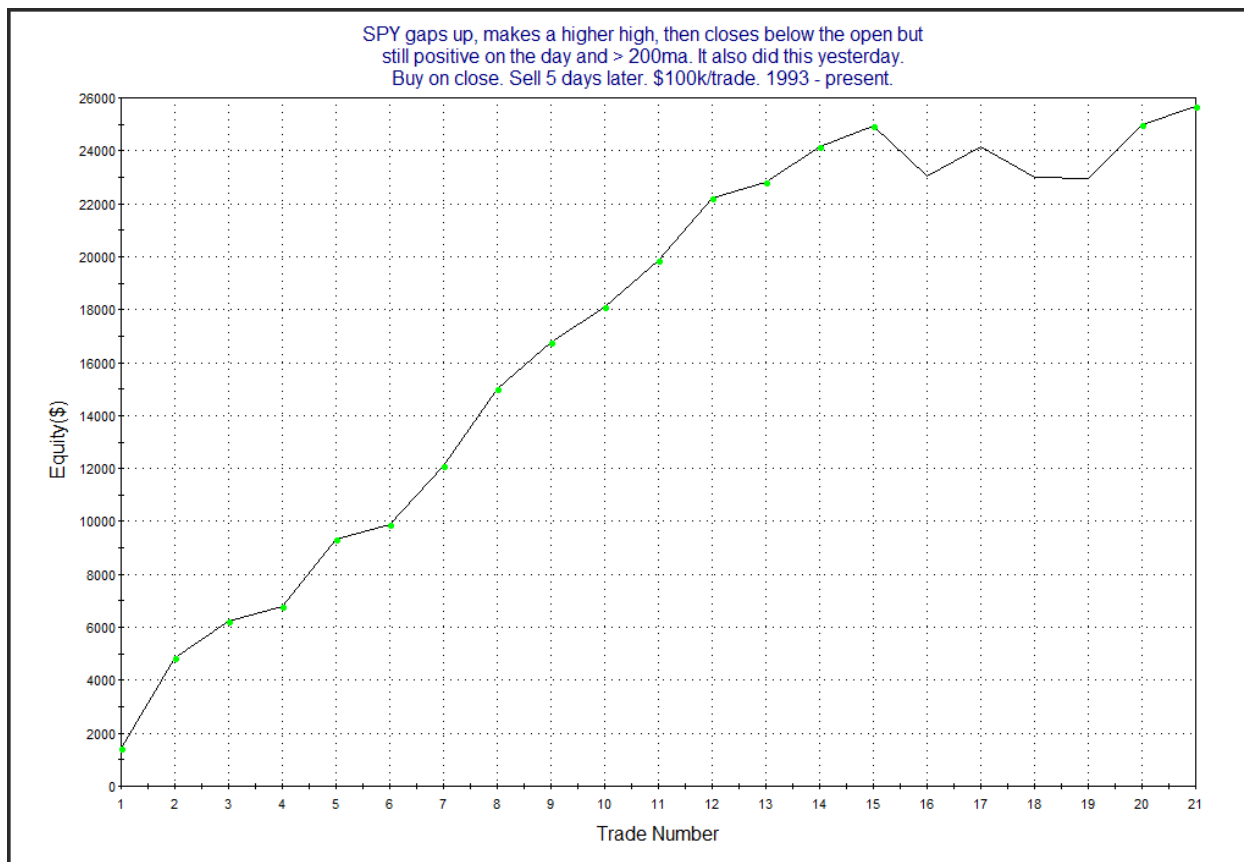
**The Evidence**

The indices did not accomplish much on Friday. SPX finished up 0.1%, the NASDAQ rose 0.1%, and the Russell 2000 declined 0.2%. Breadth was mixed with the NYSE Up Issues % coming in at 58% and the Up Volume % at 43%. NYSE total volume declined some from Thursday's level.

One study that stood out in the Quantifinder looked at the gap and partial reverse SPY pattern of the last 2 days. Both days had a gap higher, a move up above the previous day's high, and then a reversal that led the SPY to close below its open but still in positive territory. I looked at this 2-day setup last in the 4/4/19 subscriber letter using a long-term trend filter. I have updated the results table below.

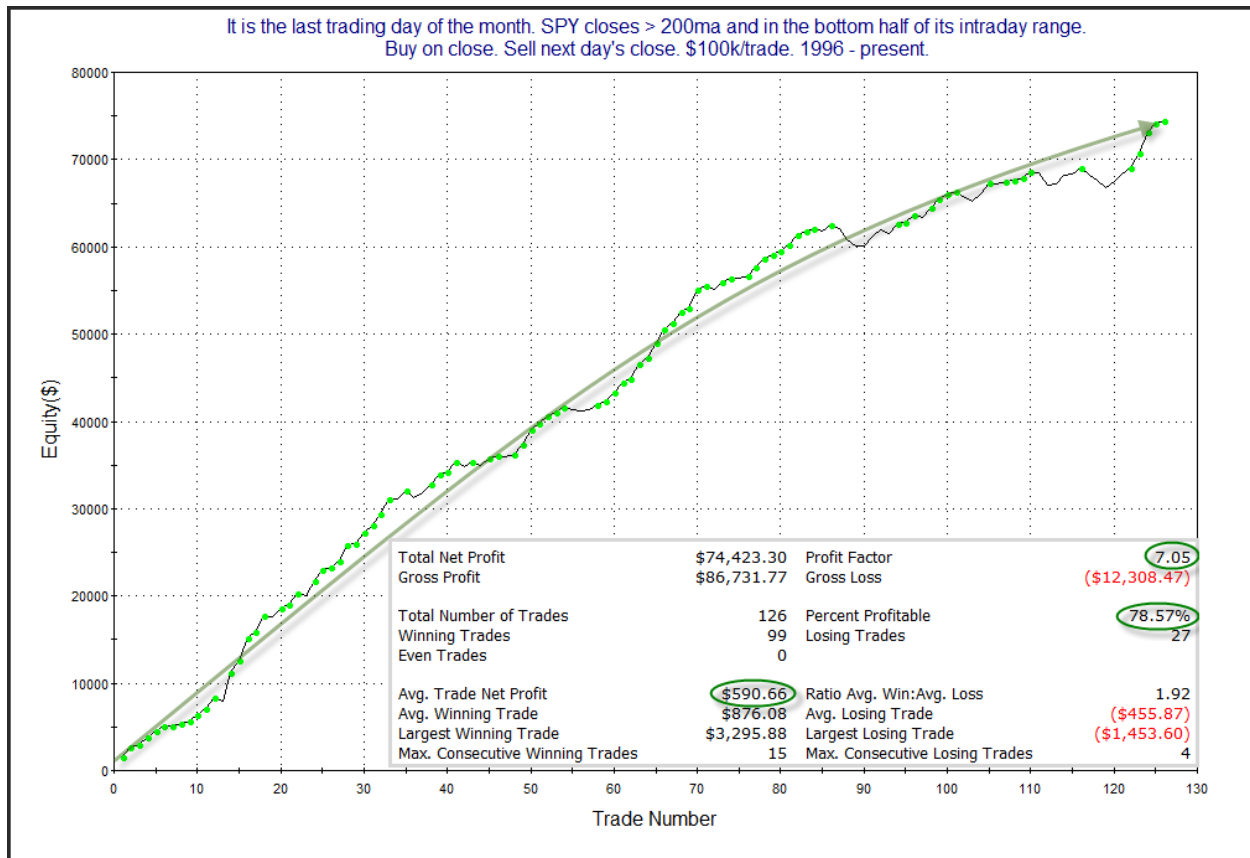
SPY gaps up, makes a higher high, then closes below the open but still positive on the day and > 200ma. It also did this yesterday. Buy on close. Sell X days later. \$100k/trade. 1993 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	25,658.50	21	18	3	85.71	3,458.95	-1,911.60	1,598.47	-1,037.97	1.54	9.24	1,221.83
4	17,861.73	21	16	5	76.19	3,132.80	-1,635.48	1,344.53	-730.14	1.84	5.89	850.56
3	17,499.31	21	15	6	71.43	3,282.40	-520.38	1,252.56	-214.85	5.83	14.58	833.30
2	13,357.71	21	16	5	76.19	2,640.00	-855.50	981.42	-469.01	2.09	6.70	636.08
1	8,046.68	23	15	8	65.22	2,570.70	-721.00	711.73	-328.66	2.17	4.06	349.86

The results have been very positive. Below is the 5-day the profit curve.



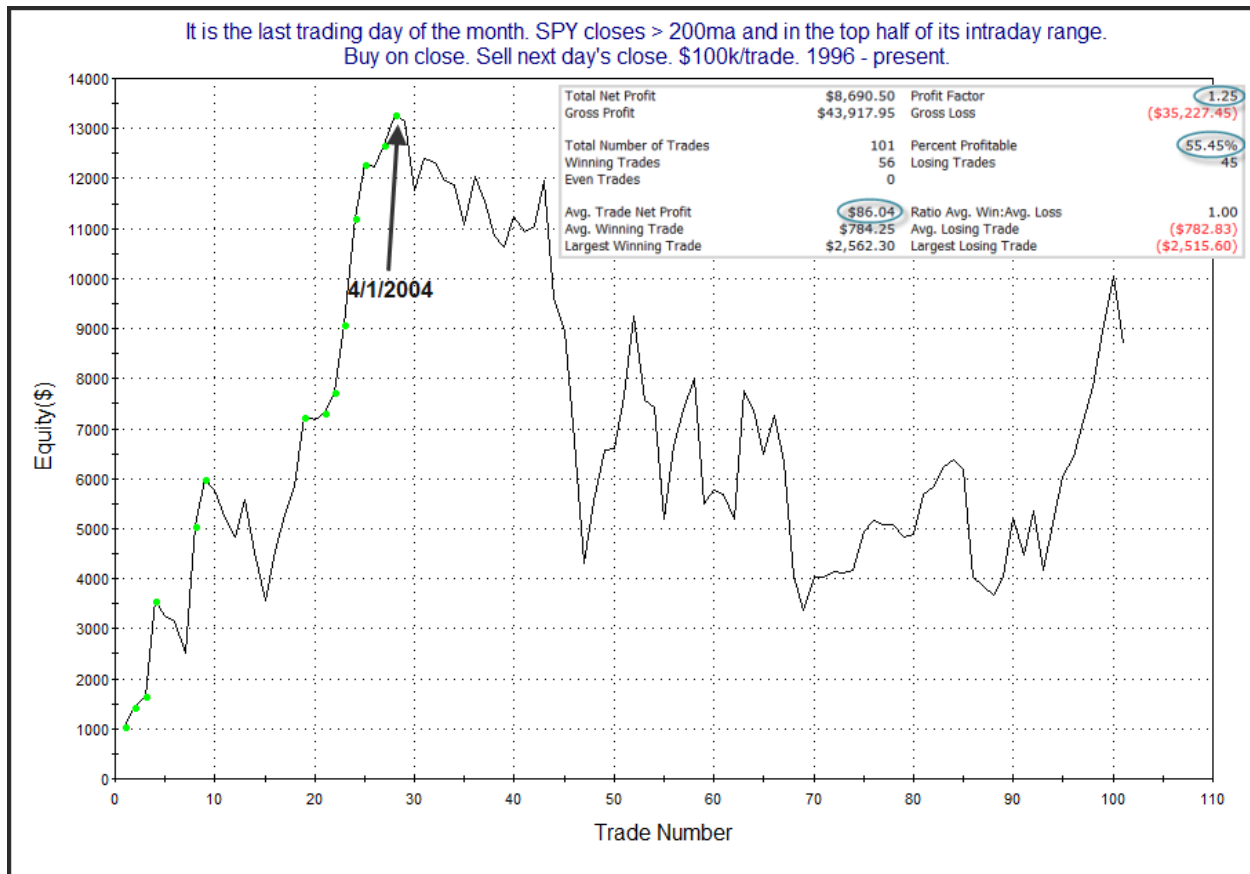
Despite some recent floundering, the curve is back at a new high and the edge still appears strong enough to warrant consideration. I have added the study to the short-term active list.

The 1<sup>st</sup> trading day of the month often plays out for the bulls. But the edge over time has been correlated to how SPY closed on the last day of the month. This can be seen in the studies below, which use a 200ma filter. First let's look at times when the market closed in the bottom half of its range on the last day of the month.



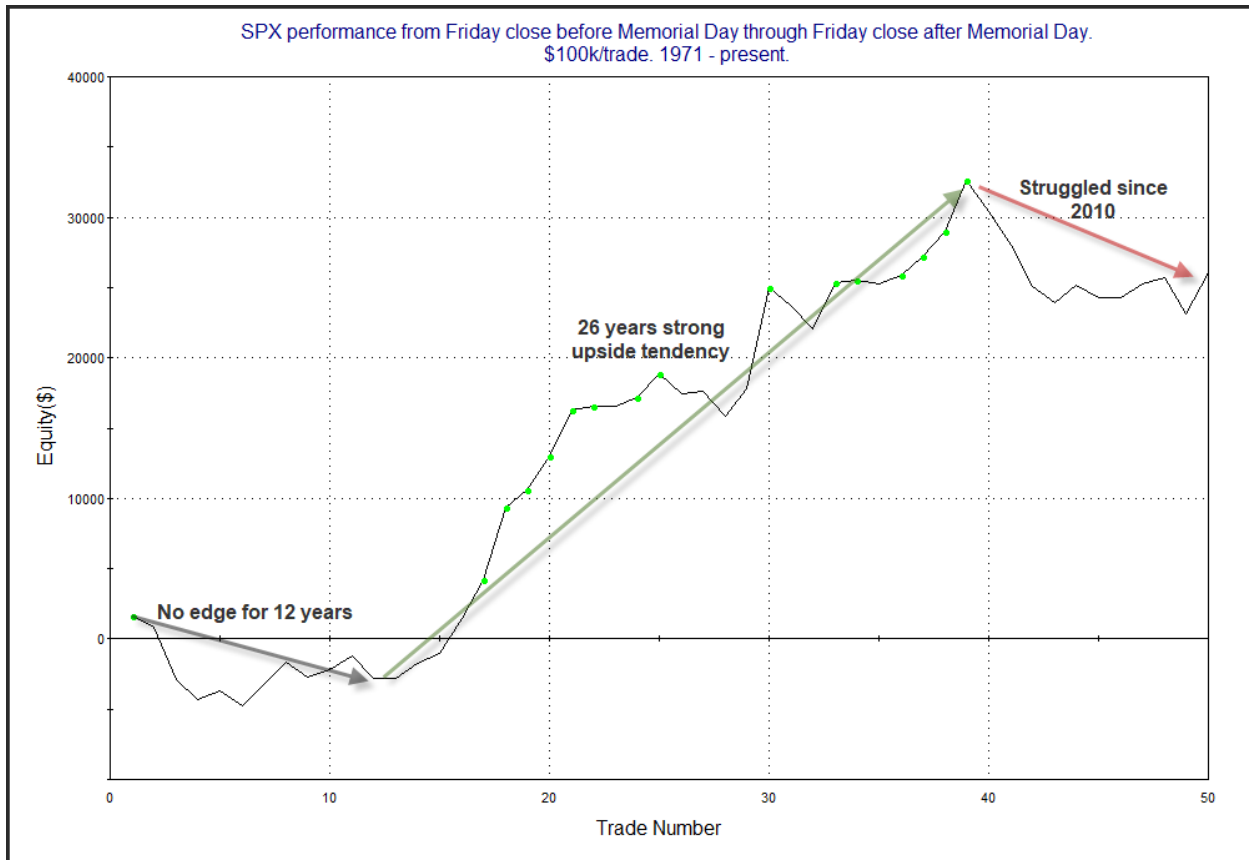
The stats here are outstanding. Gains absolutely blow away losses in every category. Gross gains are over 7x the size of gross losses. That's a very impressive stat when you are looking at a sample size of 126 instances. And the curve has shown progress over a long period of time and is again at a new high. This setup certainly appears to provide a 1-day bullish edge.

But what about times where SPY closed in the top half of its intraday range?



We see here the upside edge nearly completely wiped away. And since 2004 there have been (inconsistent) net losses, even with the recent hot streak. The 1<sup>st</sup> day of the month has performed much better with some afternoon selling leading up to the day. And that is the current setup, which bodes well for the bulls on Tuesday.

Of course Monday is Memorial Day. The week of Memorial Day has shown some interesting tendencies over the years. But it has been less consistent recently. The chart below is from the 5/26/20 subscriber letter and has been updated. It examines SPX performance from the Friday before Memorial Day to the Friday after it.

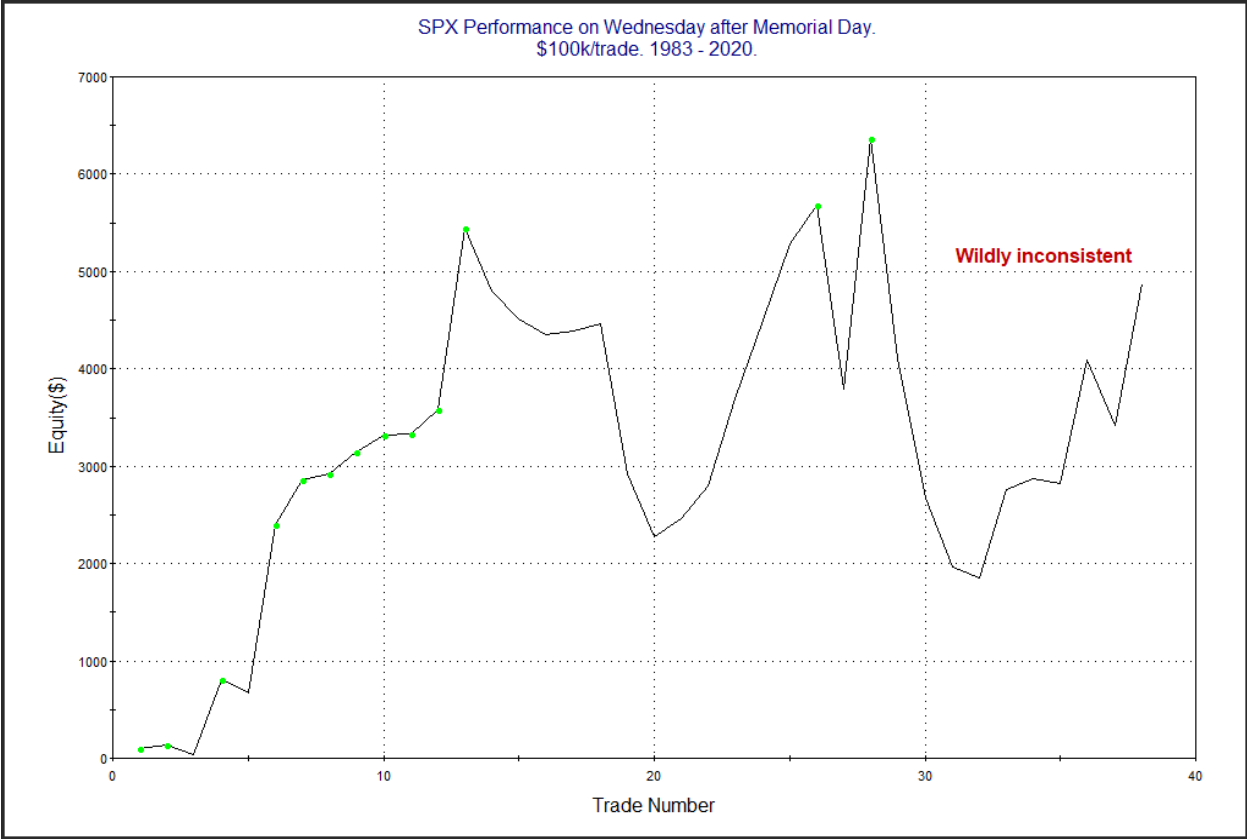
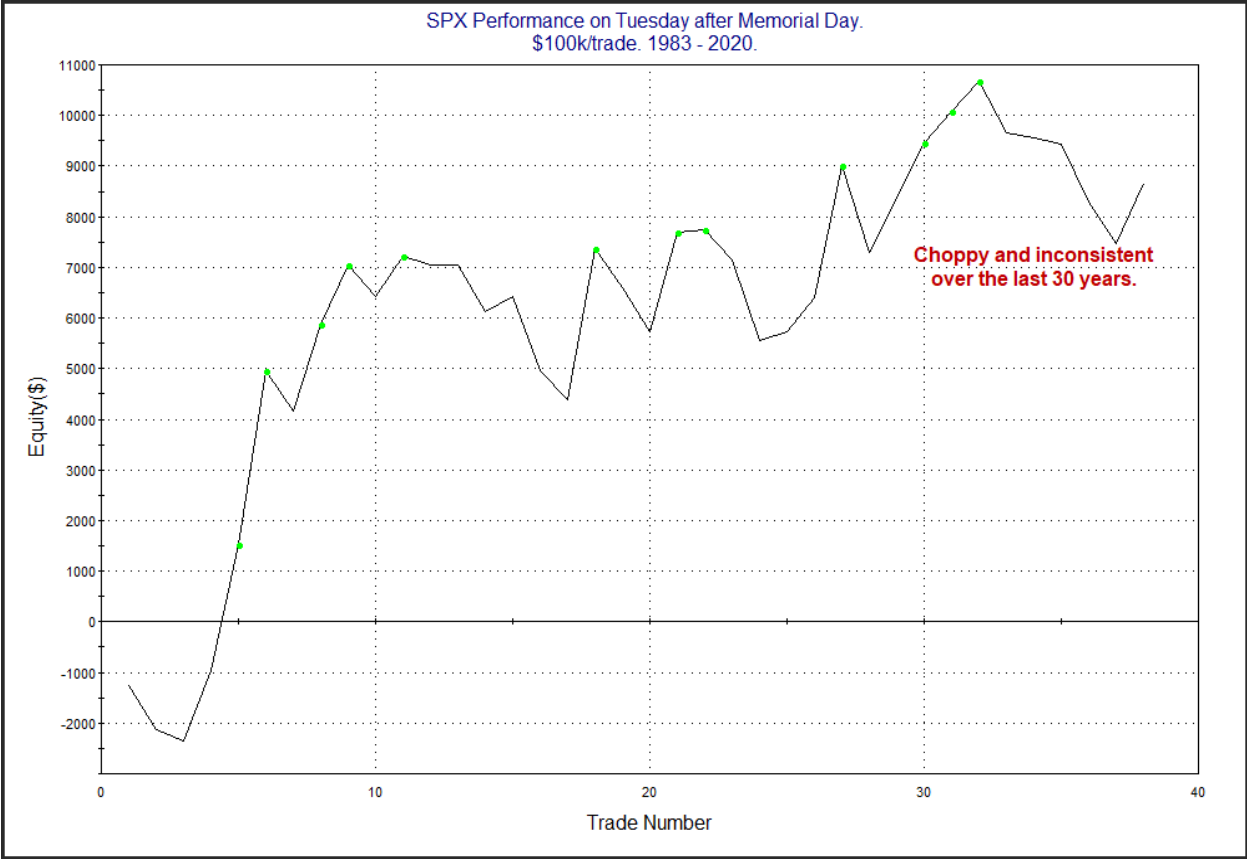


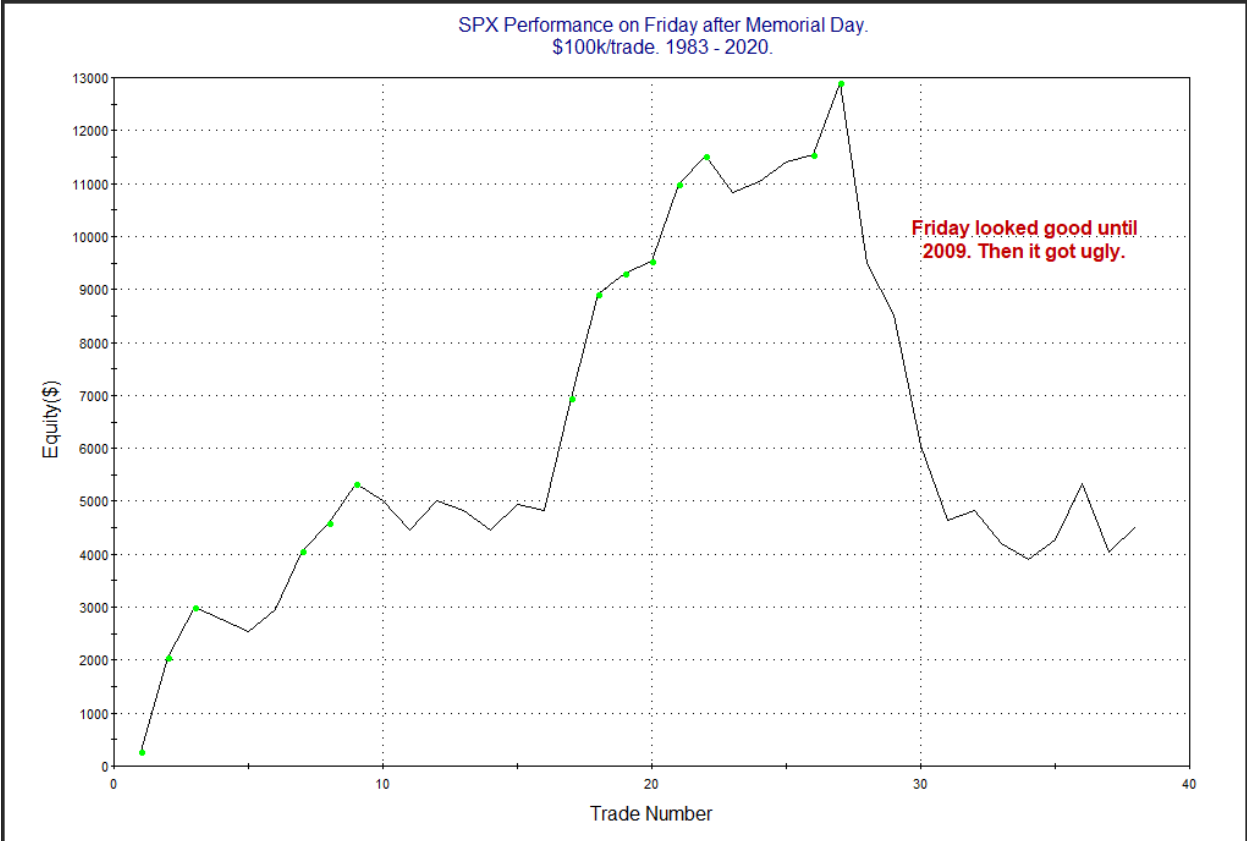
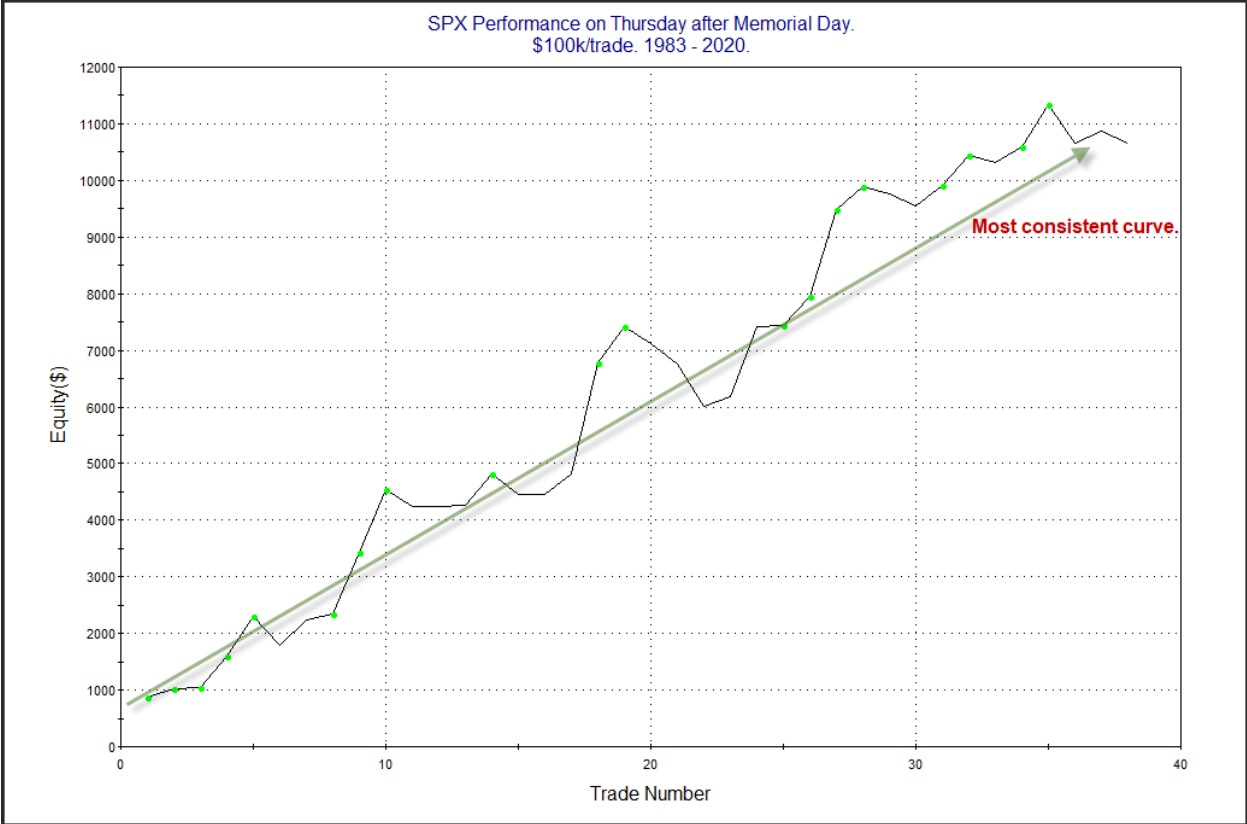
There was no substantial edge apparent throughout the 70s, but starting in 1983 through 2009 there was a bullish tendency. The last 10 years this week has mostly struggled. Last year I took a day by day look. I decided to do that again to see where the market has struggled recently. Returns are broken down by the day of the week.

SPX Performance on X Day of Memorial Week.  
\$100k/trade. 1983 - present.

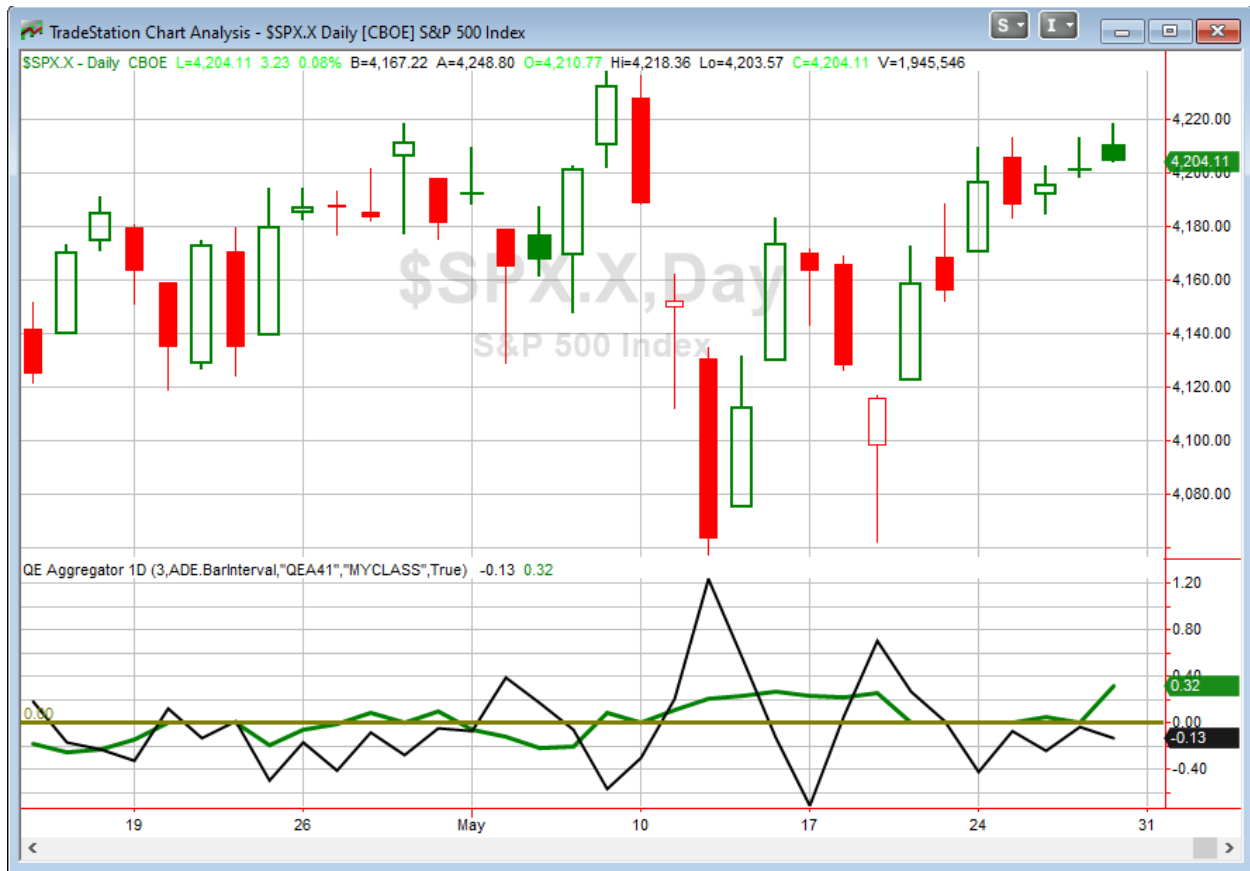
X	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
Fri	4,526.30	38	23	15	60.53	2,140.16	-3,415.50	769.90	-878.75	0.88	1.34	119.11
Thurs	10,665.20	38	26	11	68.42	1,970.50	-735.68	560.81	-355.99	1.58	3.72	280.66
Wed	4,877.41	38	24	14	63.16	2,573.31	-2,268.10	646.48	-759.86	0.85	1.46	128.35
Tues	8,670.25	38	18	20	47.37	3,443.56	-1,701.70	1,352.13	-783.40	1.73	1.55	228.16

The results table suggests Thursday is the most consistently bullish day. Friday has the weakest net numbers. Here are the curves for each day:









With this weekend's studies considered, the green Aggregator Line moved above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line closed below 0. The negative Differential Line reading means that SPX is overbought versus recent expectations. So expectations are long but SPX is overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of zero. Therefore, the Aggregator signal stayed flat at the close.

Based on the current active studies, expectations are slated to remain bullish on Tuesday. Of course this could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 4198.24 on Tuesday. That is about 0.1% below Friday's close. Therefore, SPX will only need to close down about 0.1% in order to flip from overbought to oversold vs recent expectations.

So the Aggregator is neutral. I am as well. I think there is a good chance we see the SPX move higher over the next few days, but this does not appear to be a great entry point from a risk/reward perspective. I'll probably look to be a buyer on Wednesday or Thursday if we get a pullback early in the week.


**Intermediate-term Outlook (2 weeks – 2 months) – *updated 6/1 – neutral***

Combo #1	Combo #2	Combo #3
Flat	Flat	Flat

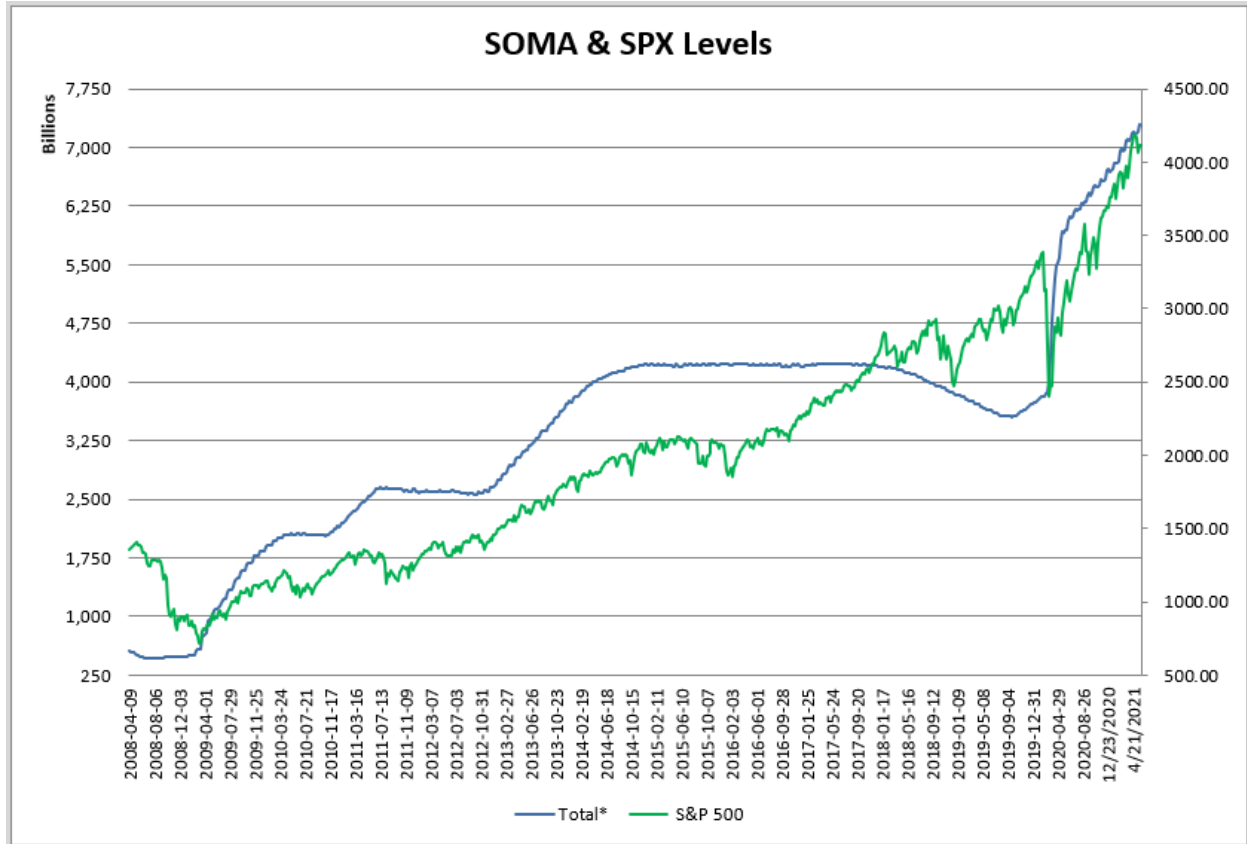
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), which is included with all annual subscriptions. Detailed descriptions of these combination approaches [can be found in Lesson 8](#). Subscribers may also download detailed hypothetical historical performance reports covering 12/31/71 – 3/7/14 in [Lesson 11, Course Downloads](#). (You must go through the course first in order to access the Downloads.) *This week all three Combo systems remained Flat.*

This seemed to be the 1<sup>st</sup> strong week for all 3 of the major indices we track in quite a while. The SPX rose 1.2%, the NASDAQ gained 2.1% and the Russell 2000 climbed 2.4%. All the indices are above their long-term moving averages, but it is not necessarily a clear uptrend for everything. SPX appears to be the strongest of the group, though it has barely made any progress over the last 6 weeks. The NASDAQ and Russell have been moving sideways for months. There were no new studies that emerged this past week with intermediate-term implications.

The Fed posted the latest update to the SOMA holdings after the close on Thursday. It can be found below.

Domestic Security Holdings as of	
◀ Previous	May 26, 2021 
Posted May 27, 2021 at 4:30 P.M.	
SUMMARY	
SECURITY TYPE	TOTAL (\$Thousands)
US Treasury Bills (T-Bills)	326,044,000.0
US Treasury Notes and Bonds (Notes/Bonds)	4,343,914,560.1
US Treasury Floating Rate Notes (FRNs)	23,871,691.1
US Treasury Inflation-Protected Securities (TIPS)*	342,855,894.6
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,234,442,006.6
Agency Commercial Mortgage-Backed Securities***	9,823,153.4
Total SOMA Holdings	7,283,298,305.8
Change From Prior Week	-18,691,187.1

This past week saw the SOMA decline by nearly \$19 billion. That is not a big surprise, since it tends to decline in the last week of every month. And the amount was not out of line with previous months, either. Below is an updated SOMA/SPX chart from 2008 – present.



The SOMA is in the midst of the largest expansion in history, and the expansion is expected to continue for a while longer. That should continue to benefit the market for a while longer. But the Fed has begun hinting that they will be looking to develop a plan to taper the Quantitative Easing that has been so supportive of the market since QE4 began. Statements following upcoming meetings will be watched closely by the market. Once a plan to taper becomes more concrete, the market will have to deal with it. We'll find out at that time if the market is strong enough to continue to rally without massive Fed stimulus to help it along. For now, the stimulus is in place, and that should continue to act as a market positive.

From an intermediate-term perspective, nothing really changed this past week. The bulls still have momentum on their side. SPX is not far from new highs. The Fed's continued pumping is also a massive plus for the bulls, and while they are thinking about slowing the liquidity, it is still strong. Bears can still point to the weak intermediate-term seasonality and the lagging NASDAQ. I will

maintain a neutral bias. This means that I will be less aggressive than normal in taking on both long and short trades. But lots of crosswinds can make for lots of short-term market swings. And I'll be on the lookout for favorable reward/risk opportunities in which to try and take advantage.

## **Catapult and Capitulative Breadth Statistics**

[Catapult & CBI Presentation Link](#)

### ***Open Catapult Triggers***

None

### ***Broad Market Large Cap CBI – 0***

## **Additional New Trade Ideas**

*A full listing of system triggers can be found at the [numbered systems page](#) each night. I will cherry pick some of my favorite setups from the S&P 100 and ETF lists along with occasional other trade ideas to track below.*

None.

## **Current Open Trade Ideas**

None.

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